TRUSTS FROM AN ECONOMIC STANDPOINT.

THE problems involved in the modern process of industrial centralization are so numerous and in some cases so far from economic in their nature that, when treating the subject from the standpoint of economics alone, it is necessary to get rid of some of the attendant complications. For instance, the argument against trusts based upon the allegation that the managers of such immense corporations exercise a dangerous political influence is entirely without the scope of an economic investigation. The treatment of that argument must be left to the political scientist. Similarly, the question whether or not the course of events threatens a new and alarming kind of political serfdom for the masses is not a question for the economist. Again it is the political scientist who must answer. These phases of the subject do not come within that part of the territory of economics which is overlapped by the domain of political science. They belong exclusively to the latter. All that the economist is concerned with is the question, "Does the centralization of industry tend to augment or to reduce the compensation of the members of the society?" When this question is correctly answered, economic science will have performed its duty.

By stripping the subject of the complications mentioned and considering it exclusively in its economic aspects, we are enabled to focus our attention upon a definite problem and to apply to its solution in a scientific manner the economic principles which have already been settled. We are moreover enabled to free ourselves to some extent from that indefinable feeling of suspicion and alarm with which we naturally view this novel feature of modern civilization, a feeling prompted not so much by reason as by the inborn dread of venturing into the unknown. How real this feeling is, and yet how formless, the experience of everyday life shows. In fact, we are standing upon the threshold of

a political campaign which promises to have for one of its distinctive features a hysterical attack upon trusts, an attack which the party responsible for it attempts to justify, not by the invocation of well-defined principles of government, but by an appeal to that feeling of vague distrust which is so prevalent throughout the country. And, strange as it may seem, nearly every economist contents himself with gravely wagging his head and uttering pessimistic prophecies whenever the topic of trusts is broached, making little or no attempt to treat scientifically the problems involved. Yet this is the peculiar field of economic science. If its principles cannot be utilized in the solution of problems of this nature, what are they but barren speculations? But, so far as the writer has observed, economists have hitherto treated this subject from a general as distinguished from a technical standpoint. Their arguments have been such as any thoughtful man would advance, even though he had never seen a work upon economic science. Therefore, it has naturally come to pass that vagueness is the chief characteristic of the discussion; the issues have not been clearly drawn, and an enormous mass of irrelevant and vituperative matter has been injected. By reducing the problem to the simple question, "Does the centralization of industry tend to augment or to reduce the compensation of the members of the society?" we at once frame a definite issue in the solution of which well-settled economic principles can be utilized. Let us see then whether economic science will not aid us in this intricate and important investigation, whether it will not furnish us with the thread by which we can retrace our steps through the jungle of popular prejudice and passion to the open ground of scientific knowledge.

In seeking for the correct answer to the question which we are considering, it is necessary, in order to avoid confusion, to consider first the economic effect of industrial centralization free from any feature of extortion due to monopoly; and, secondly, to consider the problem when complicated by the presence of that feature. The economic principles involved in these two conditions are vitally different. In the first case, it is assumed that

the operation of the law that prices fall toward the cost of production and therefore that commodities exchange in the ratio of their respective costs of production, is not interrupted; hence the problem involved relates to the distribution of the total product among the members of the producing society. In the second case, an interruption of the course of prices toward the cost of production is assumed; hence the problem involved relates to the power of a trust to check this movement.

Let us take up the consideration of these problems in the order stated.

It is now a familiar and well-settled principle of economic science that in every producing society there is a movement toward an organization in which every unit of labor[1] receives as compensation an amount equivalent to its product. That this movement is the logical result of conditions can be shown by a simple example. If we say, for instance, that the occupations of carpentry and bricklaying require precisely the same grade of labor and involve the same sacrifices in every way, but that the pay of the bricklayer averages only $2.50 per day while the pay of the carpenter averages $3.00 per day, it can readily be seen that there will be a flow of labor from the occupation of bricklaying into the occupation of carpentry and that this movement will continue until the compensation in the two occupations is equal. Extending this example to cover all occupations in which labor is of the same grade, it will be seen that there is a constant movement toward uniformity in the compensation of the labor employed.

Similarly there is an equilibrium between high grade and low grade labor. If we say, for instance, that a force of 50 carpenters requires 5 foremen of an efficiency equal to 10 to turn out product of a quality and amount equivalent to 100, and say further that there are 5 other foremen in the market under whose management the product will be equivalent to 95, it is obvious

[1] The word "labor," as used in this article, refers to the work of every man — laborer, mechanic, capitalist, and everyone else who renders any service for which society pays. Therefore, the term "compensation of labor" includes wages of superintendence, etc.

that the difference between the compensation paid to the 5 higher grade men and that paid to the 5 men next in efficiency will not exceed the difference between the amount of product turned out by the respective grades of labor, and that whenever this proportion is exceeded, the equilibrium will eventually be restored by an automatic readjustment of conditions. This example covers all wages of superintendence.

Combining the two instances mentioned above, it will be seen that there is a constant movement in every society toward a condition of equilibrium in which the compensation of every man, whatever his occupation, will be regulated by the amount of his product.

Before proceeding with the argument on this basis, however, it is necessary to diverge for a moment to meet an objection that will certainly be raised to the conclusion just reached. It has been said many times that the experience of everyday life disproves this conclusion. One example that has been adduced is that the office of Chief Justice of the Supreme Court of the United States, although far less lucrative than the independent practice of many lawyers whose services to society are of comparatively inconsiderable value, is yet eagerly sought by lawyers at great pecuniary sacrifice. "How, then," it is asked, "can you ignore the obvious fact that other elements than the monetary consideration help to fix the rate of compensation?" The only answer that can be made to this question is to say that it is not intended that this fact shall be left unconsidered. It is, however, evident that if we attempt to include such elements in the fund from which compensation must proceed, we shall have to go far beyond the idea of a distributive share of the total product of the society and take into consideration many motives and phases of character which are not purely economic in their nature. For the purposes of economic reasoning, it is necessary to have a fund that is divisible into tangible units, and this is the case with the total product of the society. No method has yet been devised for expressing such indirect compensation as fame, high position and the universal estimation of mankind in

such a way that it can be divided into units of compensation as can be done with material commodities. We must, therefore, be content for the present to deal only with that part of the compensation of labor which can be seen and touched. By this qualification, the conclusion that there is a constant movement in every society toward a condition of equilibrium in which the compensation of every man will be regulated by the amount of his product is brought into conformity with the teachings of experience.

Thus far the argument has not taken into consideration the other great factor in production — capital; it has dealt only with a state in which labor is the sole producing agent. How far is it necessary to qualify or amplify the above conclusion to make it applicable to the present complicated structure of society in which capital is so extensively employed?

In a note published in this JOURNAL for September 1899, I have endeavored to show that in the static state the portion of the price of a commodity going to capital as compensation is the sum total of the compensation of the labor employed in making and utilizing the capital, interest being expressed in terms of labor. Let us reduce this abstract statement to the concrete and apply it to society as it exists. Say that there is a producing society, one half of whose members are employed in making machinery and other forms of capital and the other half in producing with the aid of such capital commodities for consumption. Assuming that all of the machinery is used up in production, the whole of the commodities produced will be the fund which will be distributed proportionately to every member of the society as compensation for his services, whether he was employed directly, as in the production of the commodities, or indirectly, as in the production of the necessary machinery. It is evident that if, in the manufacture of certain commodities for consumption, 100 days' labor is required, working with the aid of machinery in the construction of which 100 days labor has been expended, and if the machinery is entirely used up, the amount of labor which has been employed

in the production of the finished commodities and which must be compensated is 200 days. Hence, in forming a system by which the total product of a producing society will be distributed, all of the labor employed in production can be gathered into one mass. It is not necessary to make any distinction between the labor employed in the manufacture of commodities for consumption and the labor employed in the manufacture and utilization of the necessary capital. The flow of labor from one occupation to another which naturally follows any disturbance of the equilibrium forces the compensation of the labor employed in manufacturing machinery and other forms of capital toward an equilibrium with the labor employed in producing commodities, the capitalist and the entrepreneur being included in both cases.

Up to the preceding paragraph, the argument has proceeded along lines sanctioned by the preponderance of economic authority. When, however, I assert that the compensation of the capitalist, usually termed "interest," is in equilibrium with the compensation of other men, I advance a proposition which must stand to a great extent upon its own foundations. The idea that the capitalist and the ordinary worker are separated by a Chinese wall is of such hoary respectability and is defended by such a formidable phalanx of intellect that I should hesitate to advance the proposition just mentioned if I were not convinced that it is not only a plausible but a necessary consequence of the theory that the compensation of every unit of labor tends toward an amount equivalent to its product. I cannot rid myself of the thought that the productive force which called into being all the vast accumulation of wealth which exists is resolvable into units of labor. Is not that great structure the work of men? True, a great deal of the labor power was exerted indirectly in the manufacture of machinery and other forms of capital, but the ultimate end was never out of sight. If a man work one day to make a tool and work the next day with that tool to make a second tool, and work a third day with the aid of the second tool to produce a consumable commodity, the commodity is the result of three days' labor, it being premised, of course, that the tools are used

up in production. Now, if this finished product were to exchange for a greater amount than three days' labor of a man who did not have to use any extra foresight, energy or abstinence plus an amount representing the compensation of the extra foresight, energy or abstinence of the man who anticipated the need and produced in the expectation of filling it, then labor would flow in and restore the equilibrium. And this little example can be extended to cover the case of society as it is. The intercourse of millions of people has resulted in an almost incalculable complication, but no new element has been introduced. The total product of the producing society is still the result of the work of the men employed and is distributed proportionately to their contributions.

But even though the reduction of interest to terms of labor be so obviously in accord with reason, the author of this article would have preferred to make use of accepted principles if those principles had been such as to permit of an adequate treatment of the subject. In the course of his reading, however, he has not been fortunate enough to meet with a theory of imputation which seems to meet the requirements. The essence of the attack upon trusts is that the capitalist is benefited at the expense of the workingman. Therefore, it is absolutely imperative that we should be able to show, if such be in reality the fact, that economies in cost of production resulting from savings in both labor and capital redound to the benefit of both; and this fact cannot be shown until the point is found at which the compensation of labor and capital will be in equilibrium.

As intimated in the note published in the September number of this JOURNAL, it may be claimed that the reduction of interest to terms of labor based upon an analysis of the cost of producing and lending capital conflicts with the theory that the compensation of capital is governed by its marginal productivity. Professor Carver has, however, shown that the marginal productivity of capital falls toward the point of marginal cost, and in the condition of equilibrium coincides with it. In the above argument this movement is deemed completed. The claim that

until the compensation of capital reaches the point of equilibrium its marginal productivity will be a more accurate measure than its cost is not controverted.

If the above principles be accepted as correct and the massing of all labor in one great harmonious system be permitted, the theoretical effect of industrial centralization can be easily ascertained. Inasmuch as it results in the release of labor and capital, and as the labor and capital released will either seek employment in new fields or will expand the old, thus increasing the total product, the distributive share of each unit of labor, whether employed in producing commodities for consumption, or in producing and lending capital, will be increased because the total product will be increased while the number of units of labor among which it is to be distributed remains the same.

Speaking generally, then, the centralization of industry results in a greater total production; and, owing to the fact that the unceasing competition between man and man for a share of the total product causes ultimately the formation of definite proportions between the various individual members as well as between the various groups, the increased total product will eventually be distributed in approximately the same proportions as the smaller amount previously produced.

When the problem of trusts is regarded from the above standpoint, it will be seen that the economic principles involved are exactly the same as those presented by the introduction and use of machinery. The result of the above reasoning is, therefore, corroborated by the experience of mankind. It is not denied by economists that the comfort of all classes today is vastly greater than it was 100 years ago. It is true that there are many who claim that the rich grow richer and the poor poorer day by day; but this statement is based upon no scientific or historical foundation, and as a rule the motive of the alleger is not the advancement of science. It is further the almost unanimous opinion of economists that the improvement in material conditions is attributable, directly or indirectly, to the use of machinery. Indeed, how could there have been an

increase in the distributive share of each person unless there had first been a corresponding increase in the total amount of product to be distributed? The use of machinery, which seemed at first to cause so much suffering to the laboring classes, proved, when the process of adjustment to new conditions had been completed, to be not only of benefit to those classes as well as to the rest of mankind, but also absolutely indispensable to the progress of civilization. And the principles involved in that case are involved also in the case of trusts. In each instance there are presented the phenomena of displacement of labor, temporary suffering, the flow of labor into other channels, and a consequent increase in the total product and in the distributive share of each individual. Thus, while the relative position of the various zones of productive efficiency has not been changed by the increased productivity of all classes, except in so far as the better environment has produced changes in the human organism, the whole mass of man subject to its influence has been raised to a higher level of comfort and enlightenment.

Now, if we admit that the use of machinery has been the chief, if not, indeed the only cause of the advance of civilization during the last century because of the saving in cost of production, that is to say, because of the increase in productive power which it has effectuated, we cannot but admit also that further savings in cost of production resulting from combination must have the same result. Economically considered, the term "advance in civilization" is practically synonymous with "increase in productive power." To retard the progress of society toward the most efficient organization would, therefore, be to retard the progress of civilization.

In order to trace the practical operation of the principles involved, let us compare a miniature society under the competitive system with a miniature society more compactly organized. Let us imagine that a society exists in which production in the three great branches of groceries, clothing, and building materials is carried on by thirty firms, ten to each branch, employing in the aggregate 3000 men. Say that this society has reached a

state of perfect equilibrium; that is to say, the total amount of product is exactly adapted to the needs of the people, and is distributed among them in proportion to the productivity of each.

It is now claimed that the consolidation of these thirty firms into say three great corporations will be a public injury because many who have been employed in the competitive state in soliciting trade, buying material, etc., will then be unnecessary, and will be discharged. Is not this precisely the same objection as has been urged against the use of labor-saving machinery ever since the labor riots in England in the textile industry? And, it having been so completely disproved by experience in the case of machinery, is there really need for argument to disprove it in the case of trusts? Must economists forever be called upon to explain that every man unnecessarily employed in the production of a commodity draws his pay at the expense of every other man in the community; that he is as much a burden upon the people as if a tax for his support were levied and collected by the government? Let us, however, go over again this oft-traveled ground.

Say that the thirty firms in the competitive state outlined above are consolidated into three great corporations, one for each branch of industry; and that then, because of dispensing with labor of various kinds, including traveling men, salesmen, mechanics, etc., the same amount of product can be produced by four fifths of the labor previously required. There are now 600 men thrown out of employment. Upon their fate hinges the good or evil of industrial centralization.

If we arbitrarily say that the exclusion of these men from profitable employment is permanent, then the trust is worthy of all the denunciation heaped upon it, because every consolidation would be attended either by a decrease in the population or by a lowering of the standard of living, or possibly by both. If, however, we take the obviously true view and say that the energy thus released will either flow into the production of new commodities or will improve the old, a view which is certainly

in accord with both theory and the teachings of experience, we see that, although there will be temporary suffering in the process of change from one occupation to another, yet when this process has been completed, the total amount of the product of the three thousand men will have been increased one fifth, and hence a day's labor of each man will exchange for one fifth more than it previously would. And what fair-minded economist will deny that this result is precisely what we are witnessing every day either as the result of new labor-saving inventions, or the increased use of machinery, or the centralization of industry? Certainly, the comfort of the human race has never been so great as it is now, and industrial centralization affords the hope that the increase will be still further continued.

Having disposed of the argument against trusts based upon savings in cost of production, which is merely another way of expressing increase in productive power, let us take up the feature of extortion due to monopoly.

The fear which has been expressed by many that the consolidation of industries will eventually lead to a state in which the rights of the consumer will be utterly at the mercy of the managers of the trust seems to have its origin partly in a wholesome dread of the conditions which existed in England previous to the passage of the Statute of Monopolies in 1623. Then, it will be remembered, there were but few of the great branches of trade which were not controlled by monopolies acting under a patent from the crown. The position of the consuming public was deplorable. The rapacity of the patentees knew no bounds. But not enough importance seems to be attached to the fundamental difference between such monopolies and the modern trust. The ancient monopoly was bolstered up by all the power of the crown. It threatened possible competitors not only with the dangers attending a commercial warfare with a powerful and unscrupulous foe, but also with the penalties of the law. How different is the position of the modern trust! In the first place, there is probably no instance in which it constitutes a complete monopoly or anything like it. In the second place, excessive

profits breed instant and ferocious competition. A trust is beset on all sides by strong and energetic capitalists, eagerly awaiting an opportunity to pounce upon its trade the moment conditions appear to promise a profit. Witness the present war upon the Sugar trust. Witness the downfall of Cordage. What business man would contend that it would be in the power of even the most successful trust to mulct the public at will? Would not any such attempt to force prices even to the figure at which they would necessarily be if the business were divided among many small companies, excite an opposition so strong, a feeling so bitter in the public mind, that the very corporate existence of the trust would be threatened? The picture of a great nation in thrall to a combination of capitalists and robbed of their proper compensation by extortion upon extortion is an affecting picture, but it is an absurdity. If skillfully presented to an audience and embellished by an appeal to the spirit of envy and class hatred, it may be depended upon to catch many votes among the discontented; but it should not impose upon economists. Upon whatever points political economists may differ, there is certainly one upon which they must agree, and that is, that where competition is unrestrained by law, it is not within the realm of probability that any combination can be formed which will have sufficient strength to obtain a complete monopoly in the trade in any great staple and use that monopoly to extort excessive profits from the consuming public. It is, of course, a possibility, in the sense that anything not involving a contradiction in terms is possible; but no economist who has any respect whatever for the settled principles of the science can doubt that the law that prices move toward the cost of production expresses the operation of an irresistible natural force which cannot be withstood for any considerable period in a state of commercial freedom.

There is another aspect in which the problem of centralization must be considered; that is, its relation to the struggle of the nations for commercial supremacy. In our domestic markets, we can protect our manufacturers to some extent from superior economic conditions abroad. If, however, our manufacturers

match themselves against the foreigner in the neutral markets of the world, the only possible hope of victory lies in producing at such a cost that they will not only be able to compete with foreign manufacturers under equal conditions but will be able to oust them from a field in which they have been paramount. The problem confronting us, then, if we wish to acquire a pre-eminent position in the markets of the world, is not simply to produce as cheaply as the most efficient manufacturers abroad but to produce more cheaply. Now there are but two ways in which we can obtain a decisive advantage over our competitors: the first is by using better machinery; the second, by producing on the gigantic scale which our immense resources make possible. The first advantage is necessarily temporary; but the second is more permanent. Our manufacturers have already discovered the advantage of manufacturing on a large scale, with the result that we are making tremendous strides towards pre-eminence as a commercial nation. Particularly is this true in the iron and steel industry. The great iron and steel companies own their own ore-beds, mine their own ore, transport it in their own vessels and over their own railroads, smelt it in their own furnaces and convert it into finished material. Owing to this intense centralization, the cost of the finished product is so small that the manufacturers are able to sell abroad at a price which defies foreign competition and to produce enormous quantities in a period of time which appears to foreigners marvelously short. If the process of centralization, the results of which we are now witnessing, had been arrested, and each of the branches mentioned above were now carried on by an independent concern, we might indeed have more men employed to each ton of finished product marketed at home, but we should not have an opportunity to employ any men whatever in manufacturing for the foreign trade. Last year, then, in iron and steel alone we should not have had employment for men producing 70 million dollars of exports. And this branch of our trade is still in its infancy. Looking forward even a few years to the result of the present process of centralization, we can surely say that the total

number of men employed in export and domestic trade will be far greater than could possibly have been employed in domestic trade alone under a decentralized industrial system, and, in addition, that the real wages of every man will be augmented owing to the greater cheapness of commodities.

Nor must it be supposed that it is entirely optional with us whether we shall avail ourselves of this means of increasing our productive power as a nation. Other nations are following the same path. If now we arrest the onward movement or impede it by harassing legislation, our competitors in the race for commercial supremacy, which means practically the position of primacy among nations, will advance at our expense.

Summing up, we can say that, from an economic standpoint, not only is there nothing to fear from trusts, but they are absolutely indispensable to the attainment of the ideal state in which men of the highest possible development produce the greatest possible amount of the most advantageous commodities. Without a most intense centralization of industry, the maximum amount of product *per capita* cannot be had; and without a great increase in the amount of *per capita* product, poverty and its companion, crime, will be forever rife among us. An ultimate state in which both of these specters will be absent is the dream of the economist. If achievable, it lies far along the path of increased production, and compact organization is indispensable to its attainment. That many men will build up enormous fortunes during the process of industrial change goes without saying, for nature ever goes to extremes with the pioneer; but when the adjusting forces of nature have completed their work, the compensation of such men will return to its normal proportion and the whole mass of man will be lifted to a plane of civilization as much higher than the present as the present is above the age preceding the alliance between man and steam.

It must not be supposed, however, that it is intended by the above argument to justify either an abuse of commercial freedom or a change so rapid as to produce suffering out of proportion to the good achieved. It is quite conceivable that, in cases

where there is a monopoly more or less complete, unwise and reckless officers of a great corporation may use their power unfairly and oppressively; and, even though the duration of the evil must necessarily be comparatively short if the cure be left to natural forces alone, still it may be advisable to invoke the interference of the state. But such cases may safely be dealt with as they arise. The possibility that they will occur does not warrant a blow at the whole process of industrial centralization. Beneficent regulation is one thing; prohibition is another and vastly different thing. The policy dictated by the economic principles outlined above would seem to be to sanction the general principle of centralization, and to deal with isolated instances of abuse as they arise.

W. M. COLEMAN.

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